

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name VILLAGE OF CHESANING	County SAGINAW
Fiscal Year End 2/28/07	Opinion Date 8/7/07	Date Audit Report Submitted to State 8/22/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

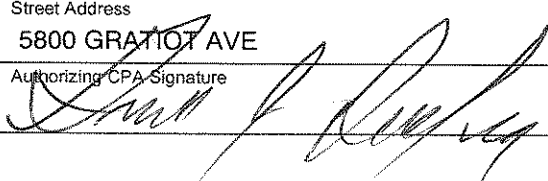
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

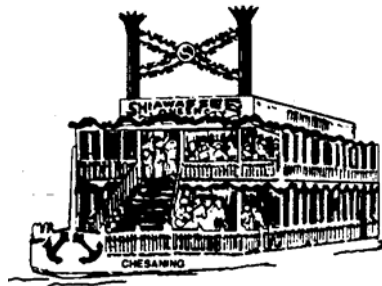
If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 989 799-9580	
Street Address 5800 GRATIOT AVE		City SAGINAW	State MI
Zip 48603			
Authorizing CPA Signature 	Printed Name GERALD J. DESLOOVER		License Number 1101007126

# Village of Chesaning

Chesaning, Michigan



'Showboat City'

## Financial Statements

For the Year Ended  
February 28, 2007

# VILLAGE OF CHESANING

## FINANCIAL STATEMENTS

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# VILLAGE OF CHESANING

## FINANCIAL STATEMENTS

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

August 7, 2007

Village Council  
Village of Chesaning  
Chesaning, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Village of Chesaning, Michigan***, as of and for the year ended February 28, 2007, as listed in the table of contents. These financial statements are the responsibility of the ***Village of Chesaning, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Village of Chesaning, Michigan***, as of February 28, 2007, and the respective changes in financial position, and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The ***Village of Chesaning, Michigan*** has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Chesaning's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT WIDE FINANCIAL STATEMENTS



**VILLAGE OF CHESANING**

**STATEMENT OF NET ASSETS  
FEBRUARY 28, 2007**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 830,792	\$ 5,481	\$ 836,273	\$ 193,518
Receivables	103,113	27,398	130,511	66,019
Restricted cash and cash equivalents	-	778,223	778,223	-
Internal balances	199,154	(199,154)	-	-
Capital assets, net:				
Assets not being depreciated	113,919	152,194	266,113	-
Assets being depreciated	322,306	3,659,216	3,981,522	-
<b>Total assets</b>	<b>1,569,284</b>	<b>4,423,358</b>	<b>5,992,642</b>	<b>259,537</b>
<b>Liabilities</b>				
Accounts payable	103,549	44,231	147,780	6,135
Noncurrent liabilities:				
Due within one year	33,692	135,139	168,831	30,000
Due in more than one year	18,229	1,080,000	1,098,229	160,000
<b>Total liabilities</b>	<b>155,470</b>	<b>1,259,370</b>	<b>1,414,840</b>	<b>196,135</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	400,741	2,606,410	3,007,151	-
Unrestricted	1,013,073	557,578	1,570,651	63,402
<b>Total net assets</b>	<b>\$ 1,413,814</b>	<b>\$ 3,163,988</b>	<b>\$ 4,577,802</b>	<b>\$ 63,402</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

<b><u>Functions / Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>		<b><u>Net (Expense)</u></b>	<b><u>Revenue</u></b>
		<b><u>Charges</u></b>	<b><u>Operating</u></b>	<b><u>Capital</u></b>	
		<b><u>for Services</u></b>	<b><u>Grants and</u></b>	<b><u>Grants and</u></b>	
			<b><u>Contributions</u></b>	<b><u>Contributions</u></b>	
<b>Primary government</b>					
Governmental activities:					
Legislative	\$ 19,655	\$ -	\$ -	\$ -	\$ (19,655)
General government	388,624	20,804	-	-	(367,820)
Public safety	149,186	1,594	2,119	8,250	(137,223)
Public works	395,824	157,407	217,681	-	(20,736)
Recreation and culture	86,966	28,223	-	-	(58,743)
Planning and development	-	34,278	-	-	34,278
Total governmental activities	<u>1,040,255</u>	<u>242,306</u>	<u>219,800</u>	<u>8,250</u>	<u>(569,899)</u>
Business-type activities:					
Wastewater treatment	500,967	591,632	-	-	90,665
Water	328,772	251,720	-	-	(77,052)
Total business-type activities	<u>829,739</u>	<u>843,352</u>	<u>-</u>	<u>-</u>	<u>13,613</u>
Total primary government	<u>\$ 1,869,994</u>	<u>\$ 1,085,658</u>	<u>\$ 219,800</u>	<u>\$ 8,250</u>	<u>\$ (556,286)</u>
<b>Component units</b>					
Downtown Development Authority	<u>\$ 73,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (73,202)</u>

continued...

**VILLAGE OF CHESANING**

**STATEMENT OF ACTIVITIES (Concluded)  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (569,899)	\$ 13,613	\$ (556,286)	\$ (73,202)
General revenues:				
Property taxes	561,352	125,365	686,717	130,553
Grants and contributions not restricted to specific programs	250,990	-	250,990	-
Unrestricted investment earnings	27,358	30,486	57,844	9,397
Miscellaneous	-	-	-	2,273
Total general revenues	839,700	155,851	995,551	142,223
Change in net assets	269,801	169,464	439,265	69,021
Net assets (deficit), beginning of year	1,144,013	2,994,524	4,138,537	(5,619)
<b>Net assets, end of year</b>	<u>\$ 1,413,814</u>	<u>\$ 3,163,988</u>	<u>\$ 4,577,802</u>	<u>\$ 63,402</u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

**VILLAGE OF CHESANING, MICHIGAN**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
FEBRUARY 28, 2007**

<b>Assets</b>	<b>General</b>	<b>Major Streets</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Cash and cash equivalents	\$ 306,061	\$ 139,914	\$ 257,646	\$ 703,621
Receivables:				
Accounts	2,771	-	-	2,771
Taxes - delinquent	35,093	-	7,126	42,219
Due from other governmental units	41,806	11,971	4,346	58,123
<b>Total assets</b>	<b>\$ 385,731</b>	<b>\$ 151,885</b>	<b>\$ 269,118</b>	<b>\$ 806,734</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 35,362	\$ 1,129	\$ 42,952	\$ 79,443
Accrued liabilities	13,575	467	505	14,547
Due to other funds	2,830	-	-	2,830
Due to component units	-	-	2,975	2,975
<b>Total liabilities</b>	<b>51,767</b>	<b>1,596</b>	<b>46,432</b>	<b>99,795</b>
<b>Fund balances</b>				
Unreserved - undesignated, reported in				
General fund	333,964	-	-	333,964
Special revenue funds	-	150,289	222,686	372,975
<b>Total fund balances</b>	<b>333,964</b>	<b>150,289</b>	<b>222,686</b>	<b>706,939</b>
<b>Total liabilities and fund balances</b>	<b>\$ 385,731</b>	<b>\$ 151,885</b>	<b>\$ 269,118</b>	<b>\$ 806,734</b>

The accompanying notes are an integral part of these financial statements.

## VILLAGE OF CHESANING

### Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets FEBRUARY 28, 2007

Fund balances - total governmental funds	\$ 706,939
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	428,893
Deduct - accumulated depreciation	(234,928)

An internal service fund is used by management to charge the costs of certain equipment usage to individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	529,347
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable	<u>(16,437)</u>
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Net assets of governmental activities	<u><u>\$ 1,413,814</u></u>
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	General	Major Streets	Other Governmental Funds	Total
<b>Revenues</b>				
Taxes and special assessments	\$ 512,249	\$ -	\$ 49,103	\$ 561,352
Licenses and permits	34,278	-	-	34,278
Intergovernmental:				
State	253,109	141,770	51,484	446,363
Charges for services	120,886	-	834	121,720
Interest	7,758	5,568	4,471	17,797
Reimbursements and refunds	22,945	-	-	22,945
Other	42,582	13,141	32,067	87,790
<b>Total revenues</b>	<b>993,807</b>	<b>160,479</b>	<b>137,959</b>	<b>1,292,245</b>
<b>Expenditures</b>				
Legislative	19,655	-	-	19,655
General government	381,877	-	-	381,877
Public safety	159,718	-	-	159,718
Public works	269,176	46,040	196,486	511,702
Recreation and culture	88,484	-	-	88,484
Capital outlay	647	-	-	647
<b>Total expenditures</b>	<b>919,557</b>	<b>46,040</b>	<b>196,486</b>	<b>1,162,083</b>
<b>Revenues over (under) expenditures</b>	<b>74,250</b>	<b>114,439</b>	<b>(58,527)</b>	<b>130,162</b>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	135,721	135,721
Transfers (out)	(20,279)	(35,442)	-	(55,721)
<b>Total other Financing sources (uses)</b>	<b>(20,279)</b>	<b>(35,442)</b>	<b>135,721</b>	<b>80,000</b>
<b>Net change in fund balances</b>	<b>53,971</b>	<b>78,997</b>	<b>77,194</b>	<b>210,162</b>
Fund balances, beginning of year	279,993	71,292	145,492	496,777
<b>Fund balances, end of year</b>	<b>\$ 333,964</b>	<b>\$ 150,289</b>	<b>\$ 222,686</b>	<b>\$ 706,939</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING**

**Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

Net change in fund balances - total governmental funds	\$	210,162
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital assets purchased		127,703
Deduct - depreciation expense		(15,820)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. A portion of the net revenue (expense) is reported with governmental activities.

Add - net operating income from governmental activities in internal service fund		3,437
Add - capital grant recorded in internal service fund		8,250
Add - investment income from internal service fund		9,561
Deduct - interest expense recorded in internal service fund		(4,932)
Add - net transfers		(80,000)

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Add - decrease in accrual for compensated absences		11,440
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Change in net assets of governmental activities	\$	<u>269,801</u>
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The accompanying notes are an integral part of these financial statements.



**VILLAGE OF CHESANING, MICHIGAN**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 541,343	\$ 541,343	\$ 512,249	\$ (29,094)
Licenses and permits	13,500	13,500	34,278	20,778
Intergovernmental:				
State	248,000	248,000	253,109	5,109
Charges for services	119,613	119,613	120,886	1,273
Interest	12,000	12,000	7,758	(4,242)
Reimbursements and refunds	24,400	24,400	22,945	(1,455)
Other	55,265	55,265	42,582	(12,683)
<b>Total revenues</b>	<b>1,014,121</b>	<b>1,014,121</b>	<b>993,807</b>	<b>(20,314)</b>
<b>Expenditures</b>				
Legislative	20,146	20,146	19,655	491
General government	361,712	361,712	381,877	(20,165)
Public safety	286,329	103,466	159,718	(56,252)
Public works				
Garbage collection	110,800	110,800	112,911	(2,111)
Department of public works	186,587	186,587	156,265	30,322
Recreation and culture				
Parks and recreation	71,800	71,800	64,750	7,050
Airport	16,940	17,160	10,906	6,254
Community center	9,650	9,650	12,828	(3,178)
Capital outlay	15,000	15,000	647	14,353
<b>Total expenditures</b>	<b>1,078,964</b>	<b>896,321</b>	<b>919,557</b>	<b>(23,236)</b>
<b>Revenues over (under) expenditures</b>	<b>(64,843)</b>	<b>117,800</b>	<b>74,250</b>	<b>(43,550)</b>
<b>Other financing (uses)</b>				
Transfers (out)	-	-	(20,279)	(20,279)
<b>Net change in fund balances</b>	<b>(64,843)</b>	<b>117,800</b>	<b>53,971</b>	<b>(63,829)</b>
Fund balances, beginning of year	279,993	279,993	279,993	-
<b>Fund balances, end of year</b>	<b>\$ 215,150</b>	<b>\$ 397,793</b>	<b>\$ 333,964</b>	<b>\$ (63,829)</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**MAJOR STREETS FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
State	\$ 135,000	\$ 135,000	\$ 141,770	\$ 6,770
Interest	1,400	1,400	5,568	4,168
Other	5,000	5,000	13,141	8,141
<b>Total revenues</b>	<u>141,400</u>	<u>141,400</u>	<u>160,479</u>	<u>19,079</u>
<b>Expenditures</b>				
Public works:				
Wages	24,650	24,650	13,342	11,308
Fringe benefits	9,350	9,350	8,206	1,144
Materials and supplies	14,500	14,500	4,678	9,822
Professional services	6,000	6,000	2,160	3,840
Equipment rental	42,000	42,000	17,654	24,346
<b>Total expenditures</b>	<u>96,500</u>	<u>96,500</u>	<u>46,040</u>	<u>50,460</u>
<b>Revenues over (under) expenditures</b>	<u>44,900</u>	<u>44,900</u>	<u>114,439</u>	<u>69,539</u>
<b>Other financing (uses)</b>				
Transfers (out)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(35,442)</u>	<u>(15,442)</u>
<b>Net change in fund balances</b>	<u>24,900</u>	<u>24,900</u>	<u>78,997</u>	<u>54,097</u>
Fund balances, beginning of year	<u>71,292</u>	<u>71,292</u>	<u>71,292</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 96,192</u>	<u>\$ 96,192</u>	<u>\$ 150,289</u>	<u>\$ 54,097</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
FEBRUARY 28, 2007**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	Wastewater Treatment Fund	Water Fund	Total	Internal Service Fund
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ -	\$ 5,481	\$ 5,481	\$ 127,171
Accounts receivable	14,142	4,566	18,708	-
Taxes receivable - delinquent	5,213	3,477	8,690	-
Due from other funds	1,698	1,132	2,830	192,100
Advance to other funds	-	-	-	40,000
Restricted cash - bond reserve	254,832	115,491	370,323	-
Restricted cash - improvements	228,749	59,477	288,226	-
Restricted cash - replacement	119,674	-	119,674	-
<b>Total current assets</b>	<b>624,308</b>	<b>189,624</b>	<b>813,932</b>	<b>359,271</b>
<b>Capital assets</b>				
Construction in progress	61,059	-	61,059	-
Land	53,112	38,023	91,135	-
Plant and facilities	3,819,938	2,084,936	5,904,874	-
Equipment	169,212	28,724	197,936	316,463
Automobile	44,601	13,195	57,796	342,010
Less accumulated depreciation	(1,828,928)	(672,462)	(2,501,390)	(416,213)
<b>Net capital assets</b>	<b>2,318,994</b>	<b>1,492,416</b>	<b>3,811,410</b>	<b>242,260</b>
<b>Total assets</b>	<b>2,943,302</b>	<b>1,682,040</b>	<b>4,625,342</b>	<b>601,531</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	15,440	6,813	22,253	3,595
Accrued payroll	4,363	2,924	7,287	984
Accrued compensated absences	8,060	2,079	10,139	-
Accrued interest payable	12,591	-	12,591	2,005
Deposits payable	2,100	-	2,100	-
Due to other funds	169,674	22,426	192,100	-
Notes payable - current	-	-	-	17,255
Bonds payable - current	75,000	50,000	125,000	-
<b>Total current liabilities</b>	<b>287,228</b>	<b>84,242</b>	<b>371,470</b>	<b>23,839</b>
<b>Long-term liabilities</b>				
Advance from other funds	40,000	-	40,000	-
Notes payable - net of current portion	-	-	-	18,229
Bonds payable - net of current portion	555,000	525,000	1,080,000	-
<b>Total long-term liabilities</b>	<b>595,000</b>	<b>525,000</b>	<b>1,120,000</b>	<b>18,229</b>
<b>Total liabilities</b>	<b>882,228</b>	<b>609,242</b>	<b>1,491,470</b>	<b>42,068</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	1,688,994	917,416	2,606,410	206,776
Unrestricted	372,080	155,382	527,462	352,687
<b>Total net assets</b>	<b>\$ 2,061,074</b>	<b>\$ 1,072,798</b>	<b>3,133,872</b>	<b>\$ 559,463</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			30,116	
<b>Net assets of business-type activities</b>			<b>\$ 3,163,988</b>	

The accompanying notes are an integral part of these financial statements

**VILLAGE OF CHESANING, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	Wastewater Treatment Fund	Water Fund	Total	Internal Service Fund
<b>Operating revenues</b>				
Taxes	\$ 76,683	\$ 48,682	\$ 125,365	\$ -
Charges for services	569,013	240,282	809,295	133,577
Other	22,619	11,438	34,057	-
<b>Total operating revenues</b>	<b>668,315</b>	<b>300,402</b>	<b>968,717</b>	<b>133,577</b>
<b>Operating expenses</b>				
Personnel services	191,476	143,633	335,109	59,305
Professional services	10,142	9,830	19,972	-
Insurance	3,562	1,206	4,768	-
Supplies	31,951	25,205	57,156	7,570
Collection system	13,865	-	13,865	-
Digester project	28,288	-	28,288	-
Repairs and maintenance	18,228	2,536	20,764	8,890
Equipment rental	10,796	38,773	49,569	-
Utilities	57,086	22,697	79,783	-
Gas and oil	755	5,341	6,096	4,437
Depreciation	85,894	42,290	128,184	46,307
Other	9,024	4,671	13,695	1,591
<b>Total operating expenses</b>	<b>461,067</b>	<b>296,182</b>	<b>757,249</b>	<b>128,100</b>
<b>Operating income</b>	<b>207,248</b>	<b>4,220</b>	<b>211,468</b>	<b>5,477</b>
<b>Nonoperating revenues (expenses)</b>				
Federal grants	-	-	-	8,250
Interest income	20,676	9,810	30,486	9,561
Interest expense	(40,345)	(34,185)	(74,530)	(4,932)
<b>Total nonoperating (expenses)</b>	<b>(19,669)</b>	<b>(24,375)</b>	<b>(44,044)</b>	<b>12,879</b>
<b>Income (loss ) before transfers</b>	<b>187,579</b>	<b>(20,155)</b>	<b>167,424</b>	<b>18,356</b>
<b>Transfers</b>				
Transfers out	-	-	-	(80,000)
<b>Change in net assets</b>	<b>187,579</b>	<b>(20,155)</b>	<b>167,424</b>	<b>(61,644)</b>
Net assets, beginning of year	1,873,495	1,092,953		621,107
<b>Net assets, end of year</b>	<b>\$ 2,061,074</b>	<b>\$ 1,072,798</b>		<b>\$ 559,463</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			2,040	
<b>Change in net assets of business-type activities</b>			<b>\$ 169,464</b>	

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	<b>Wastewater Treatment Fund</b>	<b>Water Fund</b>	<b>Total</b>	<b>Internal Service Fund</b>
Cash flows from operating activities				
Cash received from customers	\$ 668,816	\$ 299,223	\$ 968,039	\$ -
Cash received from interfund services	-	22,426	22,426	103,596
Cash payments to employees	(182,679)	(134,094)	(316,773)	(57,849)
Cash payments to suppliers for goods and services	(173,411)	(71,850)	(245,261)	(19,985)
Cash payments for interfund services	(14,552)	(38,773)	(53,325)	-
Net cash provided by operating activities	298,174	76,932	375,106	25,762
Cash flows from non-capital financing activities				
Transfers out	-	-	-	(80,000)
Cash flows from capital and related financing activities				
Acquisition of capital assets	(78,203)	(16,702)	(94,905)	(18,057)
Federal grants	-	-	-	8,250
Principal paid on long-term debt	(75,000)	(50,000)	(125,000)	(16,332)
Interest and fiscal charges paid on long-term debt	(27,754)	(34,185)	(61,939)	(2,927)
Net cash (used) by capital and related financing activities	(180,957)	(100,887)	(281,844)	(29,066)
Cash flows from investing activities				
Interest on investments	-	-	-	9,561
Net increase (decrease) in cash and cash equivalents	117,217	(23,955)	93,262	(73,743)
Cash and cash equivalents, beginning of year	486,038	204,404	690,442	200,914
Cash and cash equivalents, end of year	\$ 603,255	\$ 180,449	\$ 783,704	\$ 127,171
Cash flows from operating activities				
Operating income	\$ 207,248	\$ 4,220	\$ 211,468	5,477
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	85,894	42,290	128,184	46,307
Change in assets and liabilities:				
Accounts receivable	501	(1,179)	(678)	-
Due from other funds	(1,698)	(1,132)	(2,830)	(29,981)
Due from component units	1,698	1,132	2,830	-
Accounts payable	(510)	(364)	(874)	2,503
Accrued liabilities	737	7,460	8,197	1,456
Accrued compensated absences	8,060	2,079	10,139	-
Due to other funds	(3,756)	22,426	18,670	-
Net cash provided by operating activities	\$ 298,174	\$ 76,932	\$ 375,106	\$ 25,762

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**FEBRUARY 28, 2007**

	<u>Agency</u>
	<u>Payroll</u>
	<u>Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 6,475
<b>Liabilities</b>	
Accrued liabilities	\$ 6,475

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF NET ASSETS  
COMPONENT UNITS  
FEBRUARY 28, 2007**

	Downtown Development Authority	Economic Development Corporation	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 190,870	\$ 2,648	\$ 193,518
Receivables	66,019	-	66,019
<b>Total assets</b>	<u>256,889</u>	<u>2,648</u>	<u>259,537</u>
<b>Liabilities</b>			
Accounts payable	6,135	-	6,135
Noncurrent liabilities:			
Due within one year	30,000	-	30,000
Due in more than one year	160,000	-	160,000
<b>Total liabilities</b>	<u>196,135</u>	<u>-</u>	<u>196,135</u>
<b>Net assets</b>			
Unrestricted	<u>\$ 60,754</u>	<u>\$ 2,648</u>	<u>\$ 63,402</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF CHESANING

## STATEMENT OF ACTIVITIES - COMPONENT UNITS FOR THE YEAR ENDED FEBRUARY 28, 2007

	<b>Component Units</b>		
	<b>Downtown Development Authority</b>	<b>Economic Development Corporation</b>	<b>Total</b>
<b><u>Expenses</u></b>			
Governmental activities:			
Health and welfare	\$ (56,722)	\$ -	\$ (56,722)
Interest on debt	(16,480)	-	(16,480)
Total	<u>(73,202)</u>	<u>-</u>	<u>(73,202)</u>
Net (expense) revenue	<u>(73,202)</u>	<u>-</u>	<u>(73,202)</u>
General revenues:			
Property taxes	130,553	-	130,553
Unrestricted investment earnings	9,379	18	9,397
Miscellaneous	<u>2,273</u>	<u>-</u>	<u>2,273</u>
Total general revenues	<u>142,205</u>	<u>18</u>	<u>142,223</u>
Change in net assets	69,003	18	69,021
Net assets, (deficit) beginning of year	<u>(8,249)</u>	<u>2,630</u>	<u>(5,619)</u>
<b>Net assets, end of year</b>	<u><u>\$ 60,754</u></u>	<u><u>\$ 2,648</u></u>	<u><u>\$ 63,402</u></u>

The accompanying notes are an integral part of these financial statements.



## NOTES TO FINANCIAL STATEMENTS

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

The accounting policies of the *Village of Chesaning* (the “Village”) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

**A. REPORTING ENTITY**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village and its component units. The component units discussed below are included in the Village’s reporting entity because of the significance of their operational or financial relationship with the Village.

**Discretely Presented Component Units**

**Downtown Development Authority** - The members of the governing Board of the Downtown Development Authority are appointed by the Village Board. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Board. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete financial statements of the Downtown Development Authority can be obtained at the Village of Chesaning, 1100 West Broad Street, Chesaning, Michigan 48616.

**Economic Development Corporation** - The expenditures of the Economic Development Corporation must be approved by the Village. The Village also has the ability to significantly influence the operations of the Economic Development Corporation. Complete financial statements of the Economic Development Corporation can be obtained at the Village of Chesaning, 1100 West Broad Street, Chesaning, Michigan 48616.

**Joint Operations**

Under authorization of state statutes, the *Village of Chesaning* joined Chesaning Township and Brady Township to establish and operate a Joint Fire Protection Authority for the mutual advantage of the governments. Two members of the Board of Directors for the Authority are appointed by each Township and one member is appointed by the Village. The records are maintained and funds held by Chesaning Township. The operating and capital budgets are to be funded by a millage from each government. The tax for the Fire Authority on all Village properties is collected by Chesaning Township.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity

## VILLAGE OF CHESANING

### NOTES TO FINANCIAL STATEMENTS

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has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* accounts for the grant revenues and the related operation and maintenance of the major street system.

The government reports the following major proprietary funds:

The *wastewater treatment fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the Village reports the following fund types:

*Internal service funds* account for equipment usage provided to other departments of the government on a cost reimbursement basis.

*Agency funds* are used to account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Property taxes are reported as *general revenues* rather than as program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

**1. DEPOSITS AND INVESTMENTS**

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

***Statutory Authority***

State statutes authorize the Village to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Village does not have a separate investment policy and therefore allows for all of these types of investments.

**2. RECEIVABLES**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**3. RESTRICTED ASSETS - CASH AND CASH EQUIVALENTS**

Certain cash accounts are classified as restricted assets on the Statement of Net Assets because their use is limited. In the Enterprise Funds, the “Bond Reserve” account is used for the payment of current debt obligations and the “Improvements” and “Replacement” accounts are to report resources set aside to fund asset renewals, replacements and repairs.

**4. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and water and sewer systems, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

## VILLAGE OF CHESANING

### NOTES TO FINANCIAL STATEMENTS

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Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Plant and facilities	20 - 50 years
Equipment	5 - 15 years
Vehicles	5 - 10 years

#### **5. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **6. COMPENSATED ABSENCES**

Vacation and sick days for Village employees are determined by union contracts. Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

The portion of unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

#### **7. FUND EQUITY**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**8. INTERFUND TRANACTIONS**

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The classification of amounts recorded as subsidies or advances is determined by Village management.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETS AND BUDGETARY ACCOUNTING**

The Village adopts budgets for the General Fund and Special Revenue Funds.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Village Council. All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted or amended by the Village Council throughout the operating year.

The legal level of control is at the activity level for the General Fund and the Special Revenue Funds.

The Administrator is authorized to transfer budgeted amounts between accounts within the same department. Revisions that alter the total expenditures of any fund or total activity expenditures in the General Fund and Special Revenue Funds must be approved by the Village Council.

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS**

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended February 28, 2007, the Village incurred expenditures in the General and Special Revenue Funds, which were in excess of the amounts appropriated in various activities as follows:



**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

	<u>Budget</u>	<u>Actual</u>	(Unfavorable) <u>Variance</u>
<b>GENERAL FUND</b>			
General government	\$361,712	\$381,877	\$ (20,165)
Public safety	103,466	159,718	(56,252)
Garbage collection	110,800	112,911	(2,111)
Community center	9,650	12,828	(3,178)
Transfers out	-	20,279	(20,279)
<b>SPECIAL REVENUE FUNDS</b>			
<b>MAJOR STREETS FUND</b>			
Transfers out	20,000	35,442	(15,442)
<b>AIRPORT FUND</b>			
Public works	500	1,002	(502)

**III. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

A reconciliation of cash, pooled investments and investments as shown in the financial statement to the Village's deposits and investments is as follows:

	<u>Carrying Amount</u>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 836,273
Restricted cash and cash equivalents	778,223
Component Unit:	
Cash and cash equivalents	193,518
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>6,475</u>
Total	<u>\$ 1,814,489</u>
Notes to Financial Statements:	
Deposits	\$ 249,496
Investments	<u>1,564,993</u>
Total	<u>\$ 1,814,489</u>

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**Deposits and investments**

The Village chooses to disclose its investments by specifically identifying each. As of February 28, 2007, the Village had the following investments.

<u><b>Investment</b></u>	<u><b>Maturity</b></u>	<u><b>Fair Value</b></u>	<u><b>Rating</b></u>
National City MIF accounts	n/a	\$1,472,000	Moody's Aaa
Comerica cash investment fund	n/a	92,993	n/a

**Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note D.1. of the summary of significant accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note D.1. of the summary of significant accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment credit. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end \$116,753 of the Village's bank balance of \$316,753 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Village does not have a policy for investment custodial credit risk. However, while uninsured and unregistered, the Village's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the Village's name.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note D.1. of the summary of significant accounting policies. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the Village's investments are in National City MIF accounts.

**B. RECEIVABLES**

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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Receivables as of year end for the Village's primary government and component units in the aggregate, are as follows:

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Component Units</u></b>
Taxes	\$ 42,219	\$ 8,690	\$ 63,044
Accounts	2,771	18,708	2,975
Intergovernmental	<u>58,123</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 103,113</u>	<u>\$ 27,398</u>	<u>\$ 66,019</u>

**C. CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2007, was as follows:

**Primary Government**

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>Ending Balance</u></b>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Construction in progress	<u>3,644</u>	<u>106,275</u>	<u>-</u>	<u>109,919</u>
Total capital assets not being depreciated	<u>7,644</u>	<u>106,275</u>	<u>-</u>	<u>113,919</u>
Capital assets being depreciated:				
Building	125,219	1,777	-	126,996
Infrastructure	2,145	1,300	-	3,445
Machinery and equipment	409,995	16,626	-	426,621
Vehicles	<u>396,603</u>	<u>19,782</u>	<u>-</u>	<u>416,385</u>
Total capital assets being depreciated	<u>933,962</u>	<u>39,485</u>	<u>-</u>	<u>973,447</u>

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

	<u><b>Beginning Balance</b></u>	<u><b>Additions</b></u>	<u><b>Disposals</b></u>	<u><b>Ending Balance</b></u>
Less accumulated depreciation				
Building	\$ (74,052)	\$ (3,175)	\$ -	\$ (77,227)
Infrastructure	(43)	(69)	-	(112)
Machinery and equipment	(243,656)	(23,940)	-	(267,596)
Vehicles	<u>(271,263)</u>	<u>(34,943)</u>	<u>-</u>	<u>(306,206)</u>
Total accumulated depreciation	<u>(589,014)</u>	<u>(62,127)</u>	<u>-</u>	<u>(651,141)</u>
Total capital assets being depreciated, net	<u>344,948</u>	<u>(22,642)</u>	<u>-</u>	<u>322,306</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 352,592</u>	<u>\$ 83,633</u>	<u>\$ -</u>	<u>\$ 436,225</u>
	<u><b>Beginning Balance</b></u>	<u><b>Additions</b></u>	<u><b>Disposals</b></u>	<u><b>Ending Balance</b></u>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 91,135	\$ -	\$ -	\$ 91,135
Construction in progress	<u>-</u>	<u>61,059</u>	<u>-</u>	<u>61,059</u>
Total capital assets not being depreciated	<u>91,135</u>	<u>61,059</u>	<u>-</u>	<u>152,194</u>
Capital assets being depreciated:				
Plant and facilities	5,872,969	31,905	-	5,904,874
Equipment	195,995	1,941	-	197,936
Vehicles	<u>57,796</u>	<u>-</u>	<u>-</u>	<u>57,796</u>
Total capital assets being depreciated	<u>6,126,760</u>	<u>33,846</u>	<u>-</u>	<u>6,160,606</u>

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Less accumulated depreciation				
Plant and facilities	\$(2,171,069)	\$(120,041)	\$ -	\$(2,291,110)
Equipment	(158,132)	(6,687)	-	(164,819)
Vehicles	<u>(44,005)</u>	<u>(1,456)</u>	<u>-</u>	<u>(45,461)</u>
Total accumulated depreciation	<u>(2,373,206)</u>	<u>(128,184)</u>	<u>-</u>	<u>(2,501,390)</u>
Total capital assets being depreciated, net	<u>3,753,554</u>	<u>(94,338)</u>	<u>-</u>	<u>3,659,216</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 3,844,689</u>	<u>\$ (33,279)</u>	<u>\$ -</u>	<u>\$ 3,811,410</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 6,000
Public safety	6,962
Public works	2,858
Internal service fund	<u>46,307</u>

**Total depreciation expense – governmental activities** **\$ 62,127**

**Business-type activities:**

Wastewater Treatment	\$ 85,894
Water	<u>42,290</u>

**Total depreciation expense – business-type activities** **\$ 128,184**

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**D. PAYABLES**

Accounts payable and accrued liabilities in the primary government are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Payables:		
Accounts	\$ 86,013	\$ 22,253
Accrued payroll	15,531	7,287
Accrued interest payable	2,005	12,591
Deposits payable	<u>-</u>	<u>2,100</u>
Total payables	<u>\$ 103,549</u>	<u>\$ 44,231</u>

**E. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund receivables and payables for the year ended February 28, 2007, is as follows:

Due to:	Due from:			
	General	Wastewater Treatment	Water	Total
Wastewater Treatment	\$ 1,698	\$ -	\$ -	\$ 1,698
Water	1,132	-	-	1,132
Internal Service	<u>-</u>	<u>169,674</u>	<u>22,426</u>	<u>192,100</u>
Total	<u>\$ 2,830</u>	<u>\$ 169,674</u>	<u>\$ 22,426</u>	<u>\$ 194,930</u>

The amounts due from the Wastewater Treatment and Water funds to the Internal Service fund are to cover negative cash balances. The amounts due from the General Fund are to return over-captured taxes.

At February 28, 2007, the Village had an interfund advance outstanding of \$40,000 from the Equipment Fund to the Wastewater Treatment Fund for a plant rehabilitation project.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

The composition of interfund transfers for the year ended February 28, 2007, is as follows:

Transfer to:	Transfer from:			Total
	General	Major Streets	Internal Service	
Nonmajor Governmental	<u>\$ 20,279</u>	<u>\$ 35,442</u>	<u>\$ 80,000</u>	<u>\$135,721</u>

The transfer from the General Fund and the Internal Service Fund to the Nonmajor Governmental fund is for the purpose of funding river restoration. The transfer from the Major Streets fund to the Nonmajor Governmental fund is for local street maintenance.

**F. LONG-TERM DEBT**

The following is a summary of long-term debt outstanding of the Village and component unit for the year ending February 28, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
<b>Governmental activities:</b>					
Internal Service Fund					
Truck Installment Contract 2006-5.65%, due serially through 2008	\$ 51,816	\$ -	\$ (16,332)	\$ 35,484	\$ 17,255
Compensated Absences	<u>27,877</u>	<u>25,081</u>	<u>(36,521)</u>	<u>16,437</u>	<u>16,436</u>
<b>Total Governmental Activities</b>	<u>\$ 79,693</u>	<u>\$ 25,081</u>	<u>\$ (52,853)</u>	<u>\$ 51,921</u>	<u>\$ 33,692</u>
<b>Business-type activities:</b>					
Storm and Sanitary Sewer Revenue Bonds 1989-6.6%-7.15%, due serially through 2008	\$ 140,000	\$ -	\$ (45,000)	\$ 95,000	\$ 45,000
Storm and Sanitary Sewer Revenue Bonds 1993-5.8% to 6.0%, due serially through 2013	565,000	-	(30,000)	535,000	30,000
Water Supply System Revenue Bonds 1996-4.4%-6.4%, due serially through 2016	625,000	-	(50,000)	575,000	50,000
Compensated Absences	<u>9,677</u>	<u>12,163</u>	<u>(11,701)</u>	<u>10,139</u>	<u>10,139</u>
<b>Total Business-Type Activities</b>	<u>\$1,339,677</u>	<u>\$ 12,163</u>	<u>\$ (136,701)</u>	<u>\$1,215,139</u>	<u>\$135,139</u>

# VILLAGE OF CHESANING

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
<b>Component Units:</b>					
Downtown Development Authority					
Michigan Transportation Fund					
Bonds 1994-6.2% to 8.0%, due serially through 2012	\$ 220,000	\$ -	\$ (30,000)	\$ 190,000	\$ 30,000
Downtown Development Authority					
General Obligation Bonds 1994-6.5%, due serially through 2006	<u>6,000</u>	<u>-</u>	<u>(6,000)</u>	<u>-</u>	<u>-</u>
<b>Total Component Units</b>	<b><u>\$ 226,000</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (36,000)</u></b>	<b><u>\$ 190,000</u></b>	<b><u>\$ 30,000</u></b>

For the governmental activities, compensated absences are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation and revenue bonds and notes are as follows:

Year Ending	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Unit</u>	
<u>February 28</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 17,255	\$ 2,005	\$ 125,000	\$ 67,422	\$ 30,000	\$ 13,120
2009	18,229	1,030	145,000	59,319	30,000	11,110
2010	-	-	95,000	52,256	30,000	9,070
2011	-	-	155,000	45,303	30,000	7,000
2012	-	-	165,000	36,260	35,000	4,900
2013-2016	<u>-</u>	<u>-</u>	<u>520,000</u>	<u>55,350</u>	<u>35,000</u>	<u>2,450</u>
Total	<u>\$ 35,484</u>	<u>\$ 3,035</u>	<u>\$1,205,000</u>	<u>\$315,910</u>	<u>\$190,000</u>	<u>\$47,650</u>

### IV. OTHER INFORMATION

#### A. DEFINED BENEFIT PENSION PLAN

##### Plan Description

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement



## VILLAGE OF CHESANING

### NOTES TO FINANCIAL STATEMENTS

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Board establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

#### **Funding Policy**

The Village is required to contribute at an actuarially determined rate; the current rate is 25.73% for public works employees and 40.55% for supervisory employees of annual covered payroll. A flat rate of \$491 per month is contributed for police employees. Village employees are not required to contribute to the Plan. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

#### **Annual Pension Cost**

For the year ended February 28, 2007, the Village's annual pension cost of \$130,355 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

#### **Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/28/05	\$ 138,196	100%	\$ 0
2/28/06	134,233	100	0
2/28/07	130,355	100	0

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/03	\$389,894	\$2,185,471	\$1,795,577	18%	\$409,551	438%
12/31/04	452,642	2,456,623	2,003,981	18	427,655	469
12/31/05	488,011	2,503,318	2,015,307	19	415,944	485

**B. RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2007, the Village carried commercial insurance to cover all risk of losses. The Worker's Compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Village. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

**C. CONTINGENCIES**

The Village is a defendant in several matters which involve various claims related to disciplinary proceedings, unfair labor practices and property tax appeals. Outside counsel has advised that the possibility of unfavorable outcomes do exist, but believe that this is not likely. If an unfavorable outcome does occur, legal counsel is currently unable to predict the amount of range of potential loss.

Under the terms of State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, Village management does not believe such disallowances, if any, will be material to the financial position of the Village.

The Village has an Administrative Consent Order with the Michigan Department of Environmental Quality regarding the Village's sewer overflows, which have occurred during the past three fiscal years. No liability has been recorded in the Wastewater Treatment Fund because the amount of any liability is currently undeterminable.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**D. PROPERTY TAXES**

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 15. The Village levies taxes for general operating purposes, water and sewer improvements and street lighting.

Real property taxes not collected as of September 15 are turned over to Saginaw County for collection. The County remits the collections to the Village until the delinquent tax settlement date. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer. The assessed value of real and personal property located in the Village as of July 1, 2005, totaled \$53,572,180 representing 50% of estimated current value. The tax levy for that year was based upon the following rates:

	<b><u>Millage Rate Used</u></b>
General operating	10.10
Street lighting	0.90
Water improvement	1.00
Wastewater treatment	1.50

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**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

**VILLAGE OF CHESANING, MICHIGAN**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
FEBRUARY 28, 2007**

	Local Streets	Street Lighting	River Restoration
<b>Assets</b>			
Cash and cash equivalents	\$ 42,737	\$ 76,338	\$ 59,444
Taxes receivable - delinquent	-	7,126	-
Due from other governmental units	4,346	-	-
<b>Total assets</b>	<b>\$ 47,083</b>	<b>\$ 83,464</b>	<b>\$ 59,444</b>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 565	\$ 5,637	\$ 36,410
Accrued liabilities	505	-	-
Due to component units	-	2,975	-
<b>Total Liabilities</b>	<b>1,070</b>	<b>8,612</b>	<b>36,410</b>
<b>Fund balances</b>			
Unreserved - undesignated	46,013	74,852	23,034
<b>Total liabilities and fund balances</b>	<b>\$ 47,083</b>	<b>\$ 83,464</b>	<b>\$ 59,444</b>

Sidewalk Improvement	Airport	DPW Building	Peet Center	Total
\$ 20,510	\$ 10,792	\$ 47,821	\$ 4	\$ 257,646
-	-	-	-	7,126
-	-	-	-	4,346
\$ 20,510	\$ 10,792	\$ 47,821	\$ 4	\$ 269,118

\$ 250	\$ 90	\$ -	\$ -	\$ 42,952
-	-	-	-	505
-	-	-	-	2,975
250	90	-	-	46,432
20,260	10,702	47,821	4	222,686
\$ 20,510	\$ 10,792	\$ 47,821	\$ 4	\$ 269,118

**VILLAGE OF CHESANING, MICHIGAN**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Local Streets	Street Lighting	River Restoration
<b>Revenues</b>			
Taxes	\$ -	\$ 49,103	\$ -
Intergovernmental:			
State	51,484	-	-
Rental income	-	-	-
Interest	420	2,114	-
Other	-	-	24,427
<b>Total revenues</b>	51,904	51,217	24,427
<b>Expenditures</b>			
Public works	53,859	35,100	106,275
<b>Revenues over (under) expenditures</b>	(1,955)	16,117	(81,848)
<b>Other financing sources</b>			
Transfers in	35,442	-	100,279
<b>Net change in fund balances</b>	33,487	16,117	18,431
Fund balances, beginning of year	12,526	58,735	4,603
<b>Fund balances, end of year</b>	\$ 46,013	\$ 74,852	\$ 23,034

Sidewalk Improvement	Airport	DPW Building	Peet Center	Total
\$ -	\$ -	\$ -	\$ -	\$ 49,103
-	-	-	-	51,484
-	834	-	-	834
-	36	1,901	-	4,471
6,624	1,016	-	-	32,067
6,624	1,886	1,901	-	137,959
250	1,002	-	-	196,486
6,374	884	1,901	-	(58,527)
-	-	-	-	135,721
6,374	884	1,901	-	77,194
13,886	9,818	45,920	4	145,492
\$ 20,260	\$ 10,702	\$ 47,821	\$ 4	\$ 222,686



**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
LOCAL STREETS FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
State	\$ 50,000	\$ 50,000	\$ 51,484	\$ 1,484
Interest	125	125	420	295
<b>Total revenues</b>	<u>50,125</u>	<u>50,125</u>	<u>51,904</u>	<u>1,779</u>
<b>Expenditures</b>				
Public works:				
Wages	5,900	17,900	14,489	3,411
Fringe benefits	7,800	7,800	7,349	451
Materials and supplies	5,000	5,000	3,749	1,251
Professional services	6,000	6,000	5,826	174
Equipment rental	26,000	26,000	22,446	3,554
<b>Total expenditures</b>	<u>50,700</u>	<u>62,700</u>	<u>53,859</u>	<u>8,841</u>
<b>Revenues (under) expenditures</b>	(575)	(12,575)	(1,955)	10,620
<b>Other financing sources</b>				
Transfers in	-	20,000	35,442	15,442
<b>Net change in fund balances</b>	(575)	7,425	33,487	26,062
Fund balances, beginning of year	<u>12,526</u>	<u>12,526</u>	<u>12,526</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 11,951</u>	<u>\$ 19,951</u>	<u>\$ 46,013</u>	<u>\$ 26,062</u>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
STREET LIGHTING FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ -	\$ 43,808	\$ 49,103	\$ 5,295
Interest	-	500	2,114	1,614
<b>Total revenues</b>	-	44,308	51,217	6,909
<b>Expenditures</b>				
Public works:				
Streetlights	-	41,508	35,100	6,408
<b>Revenues over (under) expenditures</b>	-	2,800	16,117	13,317
<b>Other financing (uses)</b>				
Transfers (out)	-	(2,800)	-	2,800
<b>Net change in fund balances</b>	-	-	16,117	16,117
Fund balances, beginning of year	58,735	58,735	58,735	-
<b>Fund balances, end of year</b>	<u>\$ 58,735</u>	<u>\$ 58,735</u>	<u>\$ 74,852</u>	<u>\$ 16,117</u>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
RIVER RESTORATION FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Other	\$ -	\$ 10,000	\$ 24,427	\$ 14,427
<b>Expenditures</b>				
Public works:				
River	-	113,800	106,275	7,525
<b>Revenues over (under) expenditures</b>	-	(103,800)	(81,848)	21,952
<b>Other financing sources</b>				
Transfers in	-	104,000	100,279	(3,721)
<b>Net change in fund balances</b>	-	200	18,431	18,231
Fund balances, beginning of year	4,603	4,603	4,603	-
<b>Fund balances, end of year</b>	<u>\$ 4,603</u>	<u>\$ 4,803</u>	<u>\$ 23,034</u>	<u>\$ 18,231</u>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
SIDEWALK IMPROVEMENT FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Other	\$ -	\$ 6,983	\$ 6,624	\$ (359)
<b>Expenditures</b>				
Public works:				
Sidewalks	-	8,000	250	7,750
<b>Revenues over (under) expenditures</b>	-	(1,017)	6,374	7,391
<b>Other financing sources</b>				
Transfers in	-	3,000	-	(3,000)
<b>Net change in fund balances</b>	-	1,983	6,374	4,391
Fund balances, beginning of year	13,886	13,886	13,886	-
<b>Fund balances, end of year</b>	<u>\$ 13,886</u>	<u>\$ 15,869</u>	<u>\$ 20,260</u>	<u>\$ 4,391</u>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
AIRPORT FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Rental income	\$ -	\$ -	\$ 834	\$ 834
Interest	-	30	36	6
Other	-	1,870	1,016	(854)
<b>Total revenues</b>	-	1,900	1,886	(14)
<b>Expenditures</b>				
Public works:				
Materials and supplies	-	500	1,002	(502)
<b>Net change in fund balances</b>	-	1,400	884	(516)
Fund balances, beginning of year	9,818	9,818	9,818	-
<b>Fund balances, end of year</b>	<u>\$ 9,818</u>	<u>\$ 11,218</u>	<u>\$ 10,702</u>	<u>\$ (516)</u>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
DPW BUILDING FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Interest	\$ -	\$ -	\$ 1,901	\$ 1,901
Fund balances, beginning of year	45,920	45,920	45,920	-
<b>Fund balances, end of year</b>	<u>\$ 45,920</u>	<u>\$ 45,920</u>	<u>\$ 47,821</u>	<u>\$ 1,901</u>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
PEET CENTER FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Donations	\$ -	\$ 300	\$ -	\$ (300)
<b>Expenditures</b>				
Public works:				
Materials and supplies	-	300	-	300
<b>Net change in fund balances</b>	-	-	-	-
Fund balances, beginning of year	4	4	4	-
<b>Fund balances, end of year</b>	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ -</u>

## COMPONENT UNIT



**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
DOWNTOWN DEVELOPMENT AUTHORITY  
FEBRUARY 28, 2007**

<b>Assets</b>	Downtown Development Authority	Adjustments	Statement of Net Assets
Cash and cash equivalents	\$ 190,870	\$ -	\$ 190,870
Accounts receivable	2,975	-	2,975
Taxes receivable - delinquent	63,044	-	63,044
<b>Total assets</b>	<b>\$ 256,889</b>	<b>\$ -</b>	<b>256,889</b>
<b>Laibilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 2,165	\$ 3,970	6,135
Noncurrent liabilities:			
Due within one year	-	30,000	30,000
Due in more than one year	-	160,000	160,000
<b>Total liabilities</b>	2,165	193,970	196,135
<b>Fund balances</b>			
Unreserved - undesignated	254,724	(254,724)	-
<b>Total liabilities and fund balances</b>	<b>\$ 256,889</b>	<b>(60,754)</b>	<b>196,135</b>
<b>Net assets, unrestricted</b>		<b>\$ 60,754</b>	<b>\$ 60,754</b>

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
DOWNTOWN DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Downtown Development Authority	Adjustments	Statement of Activities
<b>Revenues</b>			
Taxes and special assessments	\$ 130,553	\$ -	\$ 130,553
Interest	9,379	-	9,379
Other	2,273	-	2,273
<b>Total revenues</b>	<u>142,205</u>	<u>-</u>	<u>142,205</u>
<b>Expenditures / expenses</b>			
Health and welfare	56,722	-	56,722
Debt service	52,340	(35,860)	16,480
<b>Total expenditures / expenses</b>	<u>109,062</u>	<u>(35,860)</u>	<u>73,202</u>
<b>Change in fund balances / net assets</b>	33,143	35,860	69,003
Fund balances / net assets (deficit), beginning of year	<u>221,581</u>	<u>(229,830)</u>	<u>(8,249)</u>
<b>Fund balances / net assets, end of year</b>	<u><u>\$ 254,724</u></u>	<u><u>\$ (193,970)</u></u>	<u><u>\$ 60,754</u></u>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 7, 2007

To the Village Council  
Village of Chesaning  
Chesaning, Michigan

We have audited the financial statements of the **Village of Chesaning, Michigan** for the year ended February 28, 2007, and have issued our report thereon dated August 7, 2007. Professional standards require that we provide you with the following information related to our audit.

## **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated March 15, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the **Village of Chesaning, Michigan**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

## **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the **Village of Chesaning, Michigan** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the **Village of Chesaning, Michigan** during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks. We evaluated the key factors and assumptions used to develop accrued compensated absences in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the **Village of Chesaning, Michigan's** financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustment(s), in our judgment, indicate matters that could have a significant effect on the Village's financial reporting process:

All audit entries that were posted to convert financial statements from cash basis to modified accrual basis and from modified accrual basis to full accrual basis. In other words, audit entries are required to properly account for receivables, payables, capital assets, etc.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the **Village of Chesaning, Michigan's** auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Village Council  
Village of Chesaning  
August 7, 2007  
Page 3

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing our audit.

This letter and the accompanying memorandum are intended for the use of the Village Council and management and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson". The signature is written in black ink and is positioned to the right of the "Very truly yours," text.

# **Village of Chesaning, Michigan**

## **Comments and Recommendations**

### **For the Year Ended February 28, 2007**

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In planning and performing our audit of the financial statements of the **Village of Chesaning, Michigan** as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that certain deficiencies, as described below, constitute material weaknesses.

The Village's written response to the material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **Significant Deficiencies and Material Weaknesses**

##### **1) Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements**

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
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# Village of Chesaning, Michigan

## Comments and Recommendations

For the Year Ended February 28, 2007

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Condition:	As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the Village's <i>internal</i> controls.
Cause:	This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.
Effect:	As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The Village has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Village to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### 2) Recording, Processing and Summarizing Accounting Data

Criteria:	All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).
Condition:	As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the Village has placed reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the Village's <i>internal</i> controls.
Cause:	This condition was caused by the Village's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

# **Village of Chesaning, Michigan**

## **Comments and Recommendations**

**For the Year Ended February 28, 2007**

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Effect: As a result of this condition, the Village lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Village has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of accounting data, and determined that it is in the best interests of the Village to rely on its external auditors to recommend the necessary adjustments.

### **3) Review and Approval of Journal Entries**

Criteria: All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

Condition: Most journal entries are prepared and posted to the general ledger accounting system by one employee.

Cause: The Village's current internal control procedures do not require that journal entries are reviewed and approved by a responsible official that is independent of the journal entry preparation.

Effect: As a result of this condition, journal entries can be posted to the general ledger system, without any indications of review or approval.

Recommendation: We recommend that the Village should adopt and enforce a policy that requires that significant adjusting journal entries are reviewed and approved by a responsible independent official, prior to being posted to the general ledger.

### **4) Bank reconciliations**

Criteria: A strong system of internal controls mandates that cash accounts are properly reconciled on a periodic basis.

Condition: The Village does not reconcile their cash accounts to supportive documentation during the year, which requires many significant adjustments to properly state the accounts at year end. Some cash accounts are reconciled to check books or a manual ledger; however, the general ledger balances are not updated to reflect all activity included in the manual system. In addition, the Village has historically relied on its independent external auditors to assist in the preparation of bank reconciliations. Accordingly, the Village has placed



# Village of Chesaning, Michigan

## Comments and Recommendations

For the Year Ended February 28, 2007

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reliance on its *external* auditors, who cannot by definition be considered a part of the Village's *internal* controls.

Cause: This condition was caused by the Village's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

Effect: When the Village does not reconcile their cash accounts on a timely basis, the cash is more susceptible to fraud and misstatement. In addition to cash becoming misstated during the year, the lack of reconciliations also affects the proper reporting of revenues, expenditures, and transfers.

Recommendation: We strongly recommend that the Village review their current bank reconciliation procedures and make appropriate alterations to those procedures to ensure that all bank account balances are properly reconciled in a timely manner throughout the year. We also recommend that the procedures include the timely resolution and correction of reconciling items. In addition, the completed bank reconciliations should be reviewed and approved by a responsible Village official.

### 5) Cash drawer reconciliation

Criteria: A strong system of internal controls over cash requires that procedures be established to reconcile the cash receipts recorded in the accounting records to the physical receipts and that those items also are reconciled to the bank deposits. These procedures should involve a variety of individuals to provide for adequate segregation of duties within the cash receipting function to prevent any one individual from controlling all aspects of a cash receipt transaction. The proper segregation of duties and adequate procedures are essential to ensuring that receipts are properly reflected in the financial records and to reduce the risk of fraud.

Condition: During fieldwork, we observed that the cash drawer was not properly reconciled after the deposits were made. The cash drawer has an established balance of \$300; however, the balance in the drawer after deposit has not remained consistent during the year.

Cause: The Village did not have appropriate control procedures in operation to identify this issue and, therefore, appropriate action was not taken to correct the situation.

## **Village of Chesaning, Michigan**

### **Comments and Recommendations**

**For the Year Ended February 28, 2007**

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Effect: The cash drawer was not properly reconciled, and thus the inadequate controls create the opportunity for fraud.

Recommendation: We recommend that the Village implement procedures to ensure that the drawer is reconciled to the proper \$300 balance, with any differences being further investigated and resolved. This will help ensure that all deposits/revenues are properly recorded in the general ledger in a timely manner.

#### **6) Office security**

Criteria: A strong system of internal controls mandates that proper security measures are in place over items such as passwords, receipts and unused checks.

Condition: The password for the accountant's computer is saved onto the computer, thereby allowing access to everyone in the Village office. In addition, receipts and unused checks are stored in unlocked desk drawers. The Village does have a safe; however, it is left open during the day.

Cause: This condition was caused by the Village's decision that it is more convenient to have access to these items, without securing them during the business day.

Effect: When the Village does not secure items such as passwords, receipts and unused checks, the Village is more susceptible to fraud and misstatement.

Recommendation: We strongly recommend that the Village review their current security measures and restrict access to passwords, receipts and unused checks.

#### **Other Matters**

#### **7) Sewer Fund Negative Cash Balance in Pooled Account**

The Village maintains a pooled checking account for several funds of the Village. During the year some funds carry negative cash balances, which are offset by positive balances in other funds. The Sewer Fund has had a negative cash balance for several years and at the end of the current fiscal year had a negative balance of approximately \$169,000. This negative balance is primarily the result of past user fees received not being sufficient to cover expenses that were paid. This situation has increased over the prior year. In addition, the Village faces significant repair and maintenance costs as a result of

# **Village of Chesaning, Michigan**

## **Comments and Recommendations**

**For the Year Ended February 28, 2007**

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requirements imposed by the Michigan Department of Environmental Quality and this situation is expected to continue in the future.

We recommend that the Village continue to monitor the current rate structure and determine if the user fees generated will be sufficient to cover operating expenses, current debt service requirements, and the expected future construction and debt service requirements.

### **8) Water Fund Negative Cash Balance in Pooled Account**

The Village maintains a pooled checking account for several funds of the Village. During the year some funds carry negative cash balances, which are offset by positive balances in other funds. The Water Fund had a negative balance of approximately \$22,000 at the end of the current fiscal year. This negative balance is primarily the result of user fees received not being sufficient to cover expenses that were paid.

We recommend that the Village continue to monitor the current rate structure and determine if the user fees generated will be sufficient to cover operating expenses, current debt service requirements, and the expected future construction and debt service requirements.

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